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C O N F I D E N T I A L SECTION 01 OF 02 DOHA 000735

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TAGS: [ECON](#) [ENRG](#) [EFIN](#) [QA](#)

SUBJECT: QATAR UNFAZED BY DUBAI DEBT - OUTLOOK POSITIVE

Classified By: Classified By: Ambassador Joseph E. LeBaron, for reasons
1.4 (b, d).

(C) KEY POINTS

-- In November, just before the Dubai crisis, the government of Qatar held the largest sale of debt by an emerging market government in history. The sale, which was oversubscribed by a factor of four, was assigned a rating of AA- by Standard & Poor,s Rating Service.

-- The head of Qatar,s branch of a regional law officer (and former adviser to Dubai,s leadership) tells us Qataris are much less exposed to the fallout from Dubai than are Kuwaitis and Saudis.

-- Accurate GDP figures for Qatar are hard to come by. Estimates of real GPD growth for 2010 range up to 18.5%. Most estimates place Qatar in 2010 among the countries with the highest GDP growth rates in the world.

-- An economic planner for the Amir,s economic adviser expects Qatar,s natural gas sales to Asia to continue to climb and noted that Qatar,s ability to act as a spot supplier of natural gas will continue to expand, even though new finds of natural gas and extraction technologies are not good developments for Qatar.

(C) COMMENTS

-- While difficult to measure statistically, the Qatari economy as a whole continues to show positive signs of strength. The success of the recent bond issue and the limited impact Dubai,s debt crisis has had on Qatar underscore the markets, confidence in Qatar.

-- The reliance of the Qatari economy on hydrocarbons will, for the foreseeable future, link Qatar,s economy to global oil and gas prices. Qatar,s ability to act increasingly as a spot supplier for natural gas should allow it to take better advantage of any positive changes in natural gas prices.

End Key Points and Comments.

(C) After the Dubai Debt Crisis

1. (U) With the announcement November 27th of the massive debt restructuring in Dubai, many analysts expressed concern about the potential for spillover effects into the other Gulf economies. This concern was evidenced by the eight-percent decrease in the Doha Securities Market 20 Index (DSM20) in the days immediately following Dubai,s announcement. The market for credit default swaps on gulf debt was also

impacted. Prices for Dubai, Abu Dhabi and Qatari debt swaps rose 54, 23 and 17 basis points respectively. The relatively small increase in the price of Qatari debt swaps highlights the perception that the Qatari credit risk post-Dubai remains favorable.

12. (C) According to Ahmad Anani, head of the law office for Al Tamimi and Company which has offices throughout the GCC, on the whole Qatar is not highly exposed to much of the fallout from the Dubai debt crisis unlike its neighbors in Saudi Arabia and Kuwait. Al Tamimi makes this assertion based on his current law practice but also from the perch of his previous job, where he advised the Dubai leadership on economic affairs.

13. (U) U.S. firms still see opportunity in Qatar. For example, California-based Pacific Investment Management Co. (PIMCO) recently increased its debt holdings in Abu Dhabi, Qatar and Ras Laffan Liquefied Natural Gas Company, lending credence to the idea that investors differentiate between the economic outlooks for Qatar and Dubai.

(U) Bond Issuance

14. (U) In November, just before the Dubai crisis, the government of Qatar held the largest sale of debt by an emerging market government in history. The government issued 5, 10 and 30 year bonds in a sale that was well received by investors, taking in \$28.0 billion in bids on \$7.0 billion in debt, with over 60% of the offers being made by U.S.- or

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European- based buyers. In trading after the sale, yields on five-year notes were 1.85 percent above U.S. Treasuries.

15. (U) Standard & Poor,s Rating Service assigned a rating of 'AA-' to Qatar,s global bond issue saying "The ratings are supported primarily by the country,s solid fiscal and external balance sheets, its prosperous economy and string growth prospect, and its prudent long term policies." Additionally, Moody,s has rated the same issue as As2,.

(C) GDP Growth Projections

16. (U) A recent report by the Oxford Business Group confirms early GDP growth projections in Qatar of 9 percent for calendar year 2009. According to the report, growth appears to be accelerating as 2010 approaches. The Amir, Sheikh Hamad bin Khalifa Al Thani, publicly predicted 16% GDP growth in 2010. In October the IMF published a a real GDP growth rate for Qatar of 18.5% for calendar year 2010. Should either the Amir or IMF's projections materialize, Qatar will maintain its position as the fastest growing economy in the world for the second straight year.

17. (C) In contrast to the public optimism of the Amir, in a November 4th meeting Frank Harrigan, Director of Economic Affairs and the General Secretariat for Development Planning, stated that any economic statistics in Qatar are, "detached from reality." There simply are no good statistics, he said, and this poses a problem for government economic planners. Harrigan predicted that nominal GDP (in a meeting that occurred hours before the official figures were released) would fall because of price and volume effects in hydrocarbon markets. The glut in global natural gas markets in particular (Qatar has the world,s third largest natural gas holdings) affected Qatar. He indicated that both prices and volumes of gas sold were down for Qatar. This is in line with Qatar,s official estimates of nominal GPD growths for Q2 2009 (Qatar,s fiscal year begins in April) released following our meeting. The estimates showed a 4.2 percent decline from the previous quarter and a 29.7 percent drop

from the previous year.

¶18. (C) Harrigan reported that the non-hydrocarbon nominal GDP growth was positive, but because it makes up a "very small overall portion" of GDP (sources have told the Embassy that hydrocarbons make up about 70% of the total economy), overall GDP would align with the hydrocarbon figures.

¶19. (C) Harrigan offered that GDP is not the best measure of economic activity in Qatar, given the preponderance of hydrocarbons in the economy. He said gross national income figures adjusted for trade flows would produce a better snapshot because it would allow for a better comparison of hydrocarbon prices compared to a basket of imported goods. Qatar would look less wealthy if wealth were measured in this way, he noted.

(C) LNG Demand

¶10. (C) Harrigan maintained that natural gas demand continues to increase in East Asia. This should prove to be a good development for Qatar in the period ahead, he predicted. However, continued development of technologies to extract natural gas from shale and discoveries of new deposits of natural gas, he explained, have pushed supply up relative to demand for the time being, resulting in a fall in the overall natural gas price.

¶11. (C) Qatar,s ability to act as a spot supplier of natural gas will continue to expand. Harrigan said that 70% of Qatar,s sales of LNG now occur on the spot market (versus 30% from long-term contracts). This is a marked change from the past, when the figures were reversed.
LeBaron